

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC NIACT IMMEDIATE 6133

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E.O. 11652: GDS
TAGS: EMIN, ETRD, ITC
SUBJECT: IMPASSE ON THE PRICE ISSUE IN THE TIN
COUNCIL CONTINUES

1. SUMMARY. A TWO DAY IMPASSE IN THE INTERNATIONAL TIN COUNCIL (ITC) ON THE ISSUE OF FLOOR AND CEILING PRICES CONTINUES. MAJOR CONSUMERS ARE HOLDING LINE AT A TOKEN FLOOR INCREASE AND A LARGER INCREASE IN CEILING WHILE PRODUCERS SEEK A FORMULA WHICH WOULD PRODUCE A MAJOR INCREASE IN BOTH FLOOR AND CEILING PRICES. ESSENCE OF US RESOLUTIONS ON TAXES AND EXPORT CONTROLS HAVE BEEN ADOPTED BY CONSUMERS AND PRODUCERS ARE SYMPATHETIC PROVIDED THEY GET AN ADEQUATE INCREASE IN THE FLOOR PRICE. END OF SUMMARY.

2. AFTER TWO DAYS OF SPIRITED DEBATE, IN THE COUNCIL AND CONSUMER CAUCUS ON JULY 13, AND IN AN ALL DAY CONTACT GROUP ON JULY 14, THERE IS NO RESOLUTION ON THE KEY ISSUE OF FLOOR AND CEILING PRICES AND THE TWO SIDES REMAIN FAR APART. CONTACT GROUP CONSISTS OF US, FRG, JAPAN, FRANCE, HUNGARY, AND NETHERLANDS FOR CONSUMERS; AND MALAYSIA, INDONESIA, BOLIVIA, AUSTRALIA, AND THAILAND FOR PRODUCERS. RESPONDING TO US LEADER-
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SHIP MAJOR CONSUMERS (US, FRG, AND JAPAN) HAVE STUCK TO A PRICE RANGE OF 1100-1425. UNEXPECTED BUT WELCOME SUPPORT HAS BEEN RECEIVED FROM HUNGARY REPRESENTING AT LEAST TO SOME DEGREE SOCIALIST COUNTRIES. BOTH US AND FRG COULD GO TO 1500 ON THE CEILING BUT HAVE STUCK AT 1425 BECAUSE THIS IS THE LIMIT OF JAPANESE AUTHORITY UNDER CURRENT INSTRUCTIONS. ALTHOUGH FRG AND JAPAN

HAVE STUCK WITH US BOTH DELEGATIONS HAVE IMMEDIATE AUTHORITY TO GO TO 1150 ON THE FLOOR AND IT SEEMS LIKELY THAT AT THE END OF THE DAY BOTH COULD JOIN A CONSENSUS POSITION OF 1200-1500.

3. PRODUCERS ARE ESPousing A RANGE OF 1360-1700 BASED ON A SIMPLISTIC CALCULATION ADVANCED BY BOLIVIA USING THE FIGURE OF 1185, WHICH APPEARS IN PARA 106 B 1 OF THE REPORT OF THE ECONOMIC AND PRICE REVIEW PANEL AS A STARTING POINT. BOLIVIAN EMPHASIS ON A "SYSTEMATIC" METHOD OF DETERMING THE PRICE RANGE AND ITS SIMPLISTIC CALCULATIONS ARE ALMOST MORE OMINOUS THAN THE FINAL FIGURES PROPOSED. WHILE THE RANGE OF 1360-1700 IS THE CURRENT PRODUCER POSITION IT SEEMS LIKELY THAT PRODUCERS OTHER THAN BOLIVIA CAN ACCEPT A SUBSTANTIALLY LOWER RANGE AT THE END OF THE DAY.

4. FRANCE HAS SUGGESTED A RANGE OF 1200-1500, WHILE THE NETHERLANDS PROPOSES 1300-1600 BUT PROBABLY WILL ACCEPT THE FRENCH POSITION. OTHER MINOR CONSUMERS, WHILE NOT MEMBERS OF THE CONTACT GROUP, WILL PROBABLY SUPPORT FRANCE AS WELL. THE UK PROBABLY CAN GO TO THIS RANGE ALSO. THE FRENCH FIGURES ARE BASED ON A COMPLEX AND SOPHISTICATED CALCULATION WHICH, NONETHELESS, TAKES CURRENT COSTS OF PRODUCTION AS THE MAIN AND ALMOST THE ONLY FACTOR IN DETERMINING FLOOR PRICES. THE US AND

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THE FRG HAVE BEEN VEHEMENT IN STATING THAT COSTS ARE ONLY ONE FACTOR IN DETERMINING THE PRICE RANGE AND NOT THE MAJOR ONE AT THAT. WE AND OTHERS HAVE ALSO EXPRESSED GREAT SKEPTICISM THAT EVEN A SHARP INCREASE IN THE FLOOR WILL ACTUALLY LEAD TO INCREASED INVESTMENT IN PRODUCTION GIVEN THE RECORD OF THE PAST DECADE.

5. THE US RESOLUTIONS ON TAXES AND RELATED ISSUES AND ALSO ON EXPORT CONTROLS WERE FLOATED IN CONSUMER CAUCUS. AFTER SOME MODIFICATIONS WHICH, HOWEVER RETAIN THE ESSENCE OF THE ORIGINAL HAVE BEEN ADOPTED AS CONSUMER PROPOSALS. PRODUCERS ARE NOT UNSYMPATHETIC, BUT LINK THIS RESOLUTION TO THE PRICE ISSUE AND REFUSE TO DEAL WITH THEM UNTIL THE PRICE QUESTION IS SETTLED. THE US AND HUNGARY HAVE BOTH CONSIDERED THAT TAXES AND RELATED ISSUES ARE REALLY THE PRIORITY QUESTION SINCE PROGRESS ON THIS FRONT IS MORE LIKELY TO PRODUCE NEW INVESTMENT IN PRODUCTION THAN ANY INCREASE IN THE PRICE RANGE, AND THAT THE ISSUE OF FLOOR AND CEILING PRICES SHOULD REALLY BE DEALT WITH

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ONCE OTHER OBSTACLES TO INCREASED PRODUCTION ARE REMOVED.
HOWEVER, THIS ARGUMENT HAS NOT DEVELOPED WIDESPREAD
SUPPORT.

6. THE RESOLUTION ON VALUATION THE US BUFFER STOCK CONTRIBUTION HAS STRUCK AN UNEXPECTED SNAG. PRODUCERS AND OTHERS HAVE POINTED OUT THAT IF THE US TIN METAL CONTRIBUTION IS ACCEPTED AT THE MARKET PRICE AND THE MARKET PRICE HAPPENS TO BE ABOVE THE CEILING PRICE, THE BUFFER STOCK MANAGER MIGHT BE FORCED TO SELL THE METAL IMMEDIATELY AT SUBSTANTIALLY BELOW THE PRICE AT WHICH WE HAD BEEN PERMITTED TO MAKE IT, THUS CONSTITUTING A SUBSTANTIAL LOSS TO THE COUNCIL. HOWEVER, THERE IS GENERAL ACCEPTANCE BY BOTH CONSUMERS AND PRODUCERS OF THE PRINCIPLE THAT THE US SHOULD NOT MAKE ITS CONTRIBUTION ON TERMS LESS FAVORABLE THAN OTHERS BECAUSE IT CHOOSES TO CONTRIBUTE TIN METAL. A PROBABLE OUTCOME AT THIS COUNCIL MEETING IS A RESOLUTION ACCEPTING IN PRINCIPLE THAT THE US SHOULD MAKE ITS CONTRIBUTION ON AN EQUAL FOOTING WITH OTHERS AND ASKING THE BUFFER STOCK FINANCE COMMITTEE IN CONJUNCTION WITH US REPRESENTATIVES TO WORK OUT THE METHOD OF MAKING THE CONTRIBUTION.

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7. ASSESSMENT: THE DEPARTMENT MAY WISH TO REVIEW USDEL'S INSTRUCTIONS IN LIGHT OF THE FOLLOWING JUDGEMENTS:

-- WHILE MAJOR CONSUMERS HAVE LOYALLY SUPPORTED THE US POSITION ON FLOOR AND CEILING PRICES THUS FAR, IT SEEMS LIKELY THAT THEY WILL MOVE TO AT LEAST 1150 ON THE FLOOR BY JULY 15, AND MAY WELL GO AS FAR AS THE FRENCH FLOOR OF 1200.

-- WHILE THE FRENCH POSITION IS FAR BELOW THAT OF THE CURRENT PRODUCER POSITION, AND ALSO BELOW THAT OF SOME CONSUMERS (THE NETHERLANDS FOR ONE) IT SEEMS LIKELY THAT IT WILL BE ACCEPTABLE TO PRODUCERS IN THE END.

-- THE RESOLUTIONS ON TAXES AND RELATED ISSUES, AND ALSO ON EXPORT CONTROLS, HAVE NOW BEEN ADOPTED BY CONSUMERS AS A GROUP AND PRESUMABLY HAVE A FAIRLY GOOD CHANCE OF PASSAGE EVEN IF THE US IS ISOLATED ON PRICE ISSUE.

8. WE ASSUME IT WILL BE IMPOSSIBLE FOR THE US TO JOIN A CONSENSUS AT A PRICE RANGE OF 1200-1500. AN ARGUMENT CAN BE MADE THAT WE MIGHT RETAIN MORE INFLUENCE IN THE COUNCIL BY SHOWING SOME INCREASED FLEXIBILITY ON THE FLOOR, SAY BY MOVING TO A FIGURE OF 1150, EVEN THOUGH WE STILL COULD NOT JOIN A CONSENSUS. HOWEVER, SINCE THERE IS A GOOD CHANCE THE RESOLUTIONS WILL PASS IN SOME FORM EVEN THOUGH WE ARE ISOLATED, THE STRENGTH OF THIS ARGUMENT IS LIMITED. IF THE US COULD GO TO 1175 IT IS JUST POSSIBLE A CONSENSUS COULD BE BUILT

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AROUND THAT FIGURE, BUT THE CHANCES ARE SLENDER AT BEST. THE DEPARTMENT'S ADVICE WOULD BE APPRECIATED. IN THE ABSENCE OF NEW INSTRUCTIONS WE WILL CONTINUE TO SUPPORT THE 1100-1500 RANGE AND URGE ADOPTION OF THE RESOLUTIONS, PRIVATELY PRESSING OTHER CONSUMERS TO GIVE THEM ACTIVE SUPPORT AS WELL. THIS POSITION MAKES ISOLATION INEVITABLE, BUT PERHAPS ONLY WITH RESPECT TO THE FLOOR PRICE. BREWSTER

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